Current Economic Conditions

By Federal Reserve District

July 2012
SUMMARY OF COMMENTARY ON CURRENT ECONOMIC CONDITIONS
BY FEDERAL RESERVE DISTRICTS

July 2012
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>District</th>
<th>City</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUMMARY</td>
<td></td>
<td>i</td>
</tr>
<tr>
<td>First District</td>
<td>Boston</td>
<td>I-1</td>
</tr>
<tr>
<td>Second District</td>
<td>New York</td>
<td>II-1</td>
</tr>
<tr>
<td>Third District</td>
<td>Philadelphia</td>
<td>III-1</td>
</tr>
<tr>
<td>Fourth District</td>
<td>Cleveland</td>
<td>IV-1</td>
</tr>
<tr>
<td>Fifth District</td>
<td>Richmond</td>
<td>V-1</td>
</tr>
<tr>
<td>Sixth District</td>
<td>Atlanta</td>
<td>VI-1</td>
</tr>
<tr>
<td>Seventh District</td>
<td>Chicago</td>
<td>VII-1</td>
</tr>
<tr>
<td>Eighth District</td>
<td>St. Louis</td>
<td>VIII-1</td>
</tr>
<tr>
<td>Ninth District</td>
<td>Minneapolis</td>
<td>IX-1</td>
</tr>
<tr>
<td>Tenth District</td>
<td>Kansas City</td>
<td>X-1</td>
</tr>
<tr>
<td>Eleventh District</td>
<td>Dallas</td>
<td>XI-1</td>
</tr>
<tr>
<td>Twelfth District</td>
<td>San Francisco</td>
<td>XII-1</td>
</tr>
</tbody>
</table>
SUMMARY*

Reports from most of the twelve Federal Reserve Districts indicated that overall economic activity continued to expand at a modest to moderate pace in June and early July. The Atlanta, St. Louis, and San Francisco Districts reported modest growth, while Boston, Chicago, Minneapolis, Kansas City, and Dallas described economic activity as advancing moderately. The New York, Philadelphia, and Cleveland Districts noted that activity continued to expand, but at a slower pace since the last report, while Richmond cited mixed activity.

Retail sales increased slightly in all reporting Districts except Boston and Cleveland, where sales were categorized as flat, and New York, where sales softened. Of the Districts that saw an increase in activity, most noted strength in auto sales. In particular, auto dealers noted that demand for fuel-efficient vehicles continued to support sales. Tourism activity remained strong according to contacts in the New York, Richmond, Atlanta, Minneapolis, and San Francisco Districts.

All District housing market reports were largely positive as sales and construction levels increased and home inventories declined. Rental markets continued to strengthen with rising rents being reported in Boston, New York, Atlanta, Chicago, and Dallas. Commercial real estate leasing and construction continued to improve as demand for multifamily units increased in Atlanta, Chicago, and San Francisco. However, both New York and Richmond noted a slowdown in commercial activity, while Philadelphia and Dallas held steady.

Manufacturing activity continued to expand slowly in most Districts, and Cleveland, Atlanta, Chicago, and Kansas City cited slight increases in production levels. However, several Districts reported a deceleration in new orders, and the Philadelphia and Richmond Districts reported declines in shipments and orders. Demand for nonfinancial services remained generally stable in most regions. Richmond noted strong sales among professional, scientific, and technical firms, while Dallas noted strength in energy, legal, and audit-related services. Transportation reports were generally positive, with Kansas City noting an uptick in trucking activity, while Richmond reported increased port activity.

*Prepared at the Federal Reserve Bank of Atlanta and based on information collected before July 9, 2012. This document summarizes comments received from businesses and other contacts outside the Federal Reserve and is not a commentary on the views of Federal Reserve officials.
Demand for loans, particularly those related to real estate, grew modestly in most Districts. However, both Cleveland and Richmond noted some weakness in loan activity. Credit standards remained unchanged in New York, Richmond, and Kansas City, while credit quality improved in Philadelphia, Kansas City, Dallas, and San Francisco. Agricultural production and pricing reports were mixed. While drought conditions have affected production in some Districts, others noted favorable conditions. Chicago and Kansas City reported a significant deterioration of corn crops, which has pushed up prices since the end of June.

All Districts conveyed that input prices had stabilized in recent months. Price pressures were described as easing in New York, Philadelphia, Atlanta, and San Francisco as energy costs declined. Wage pressures remained modest, except for highly skilled workers in information technology, health care, transportation, and manufacturing. Employment levels improved at a tepid pace for most Districts. Overall, Districts reported that their contacts remained cautiously optimistic about future business conditions.

**Consumer Spending and Tourism**

Most Districts reported modest increases in retail spending on a year-over-year basis, but many reported slower growth in recent months compared with earlier in the year; however, Boston and Cleveland reported sales as flat, and New York cited softer sales. There were a few reports that high summer temperatures negatively affected sales. Sales of big-ticket household goods were strong in the Richmond, Chicago, Kansas City, and Dallas Districts, while sales were reportedly flat for home furnishings and major appliances in the San Francisco District. Boston reported that sales for furniture and electronics had slowed, and retailers in the New York District reported that home goods sales were weak. Reports from luxury-goods retailers were mixed. Firms in the Philadelphia, Atlanta, and Chicago Districts reported that sales of high-end goods remained strong, while retailers in the Kansas City and San Francisco Districts indicated demand had softened, and those in the Cleveland District noted that sales of luxury goods had slowed. Most Districts reported that vehicle sales remained robust. Demand was high for fuel-efficient vehicles in particular. Looking forward, merchants in the Boston and Philadelphia Districts were concerned that economic uncertainty could result in restrained sales growth, while retailers in the Cleveland District anticipated that the third quarter will be higher compared with year-ago levels. Kansas City noted that merchants there expected further strengthening in the coming months.
Travel and tourism activity was reported as strong across several Districts. Hotel occupancy rates and revenue per room were robust in many areas according to reports from New York, Richmond, Atlanta, Chicago, and San Francisco. Attendance numbers were solid at attractions in various Districts, including theme parks in Florida and New York’s Broadway theaters. Richmond, Minneapolis, and San Francisco reported that natural disasters had negatively affected bookings in some parts of their Districts. Dallas reported that demand for international travel was strongest for South America and Mexico destinations. Atlanta shared their contacts’ concerns about the potential impact of economic and financial stress abroad and the effect it could have on international travel. That said, several Districts reported that the outlook among the majority of hospitality contacts for the remainder of the summer is good as hotel and convention bookings continued to exceed last year’s pace.

**Real Estate and Construction**

Reports on residential housing markets remained largely positive. Sales were characterized as improving in Philadelphia, New York, Richmond, Chicago, St. Louis, and Minneapolis, while home sales increased in Boston, Cleveland, Atlanta, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. However, reports on sales were mixed in the New York District, and gains in the Boston District eased from earlier in the year. New home sales were described as disappointing in the Philadelphia District. Construction increased in the New York, Atlanta, St. Louis, Minneapolis, Dallas, and San Francisco Districts, while reports from the Cleveland District said construction slowed. Most Districts reported declines in home inventories. Homes prices have begun to stabilize in some markets and price increases were noted in select markets. Boston and Atlanta noted that appraisals were coming in below market prices.

Rental markets continued to strengthen by most accounts. Rising apartment rents were reported in the Boston, New York, Atlanta, Chicago, and Dallas Districts. Strong demand for rental units spurred increases in multifamily construction in the San Francisco District. Multifamily construction was described as strong in the Atlanta and Chicago Districts. Apartment construction is expected to pick up over the next several months in the Dallas District.

Recent activity in commercial real estate markets has been mixed. Modest improvements were noted in Boston, Atlanta, and St. Louis and demand strengthened in the San Francisco District. Softer conditions were reported in the New York and Richmond Districts, while
demand held steady in the Philadelphia and Dallas Districts. Nonresidential construction activity varied as well. Construction activity increased modestly in the Minneapolis and Kansas City Districts, while construction continued to gain momentum in the Boston District. Demand for commercial construction rose in Chicago, while activity was described as much improved from a year earlier in the Cleveland District. Construction was flat in the Atlanta District on a year-over-year basis, while activity had softened in recent months in the Richmond District. Overall, the outlook among commercial real estate contacts and contractors was slightly positive.

Manufacturing

Manufacturing continued to expand in June and early July in most Districts, but at a more modest pace compared with earlier in the year. Several Districts reported that new orders had moderated since the last report, but the Philadelphia, St. Louis, and Kansas City Districts were more optimistic that new orders would rebound. The Philadelphia and Richmond Districts however, reported declines in shipments and orders. The passing of a transportation bill through Congress led contacts in the Philadelphia District to express interest in increasing their capital spending. Capacity utilization rates at refineries and petrochemical manufacturing facilities held steady in the San Francisco District, with weaker domestic demand being offset by growing exports. Meanwhile, manufacturers in the Dallas District reported operating at above 90 percent utilization rates to catch up with below-normal inventory levels.

The San Francisco District noted continued strength in semiconductor production, while the Dallas District said sales at high-tech manufacturing had decreased since the last report. Expectations from high-tech manufacturers in the Dallas District were that growth would remain flat to slightly weaker through year’s end, a change from earlier in the year when most contacts anticipated a pick-up in the second half. Overall, most Districts reported a moderation of expectations among their manufacturing contacts.

Hiring at manufacturing firms continued to vary by District. Kansas City said that fewer plant managers were planning to hire, while the St. Louis District reported plans for plant expansions later in the year. The Dallas District cited particular strength in food production, citing contacts who said they planned to add several new workers. However, makers of food products in the Philadelphia District noted a falloff in demand. Cleveland and Chicago noted that automobile production remained a source of strength, with contacts from the Chicago District reporting that there was an increase in research and development activity.
Nonfinancial Services

Demand for nonfinancial services was generally stable to slightly stronger since the previous report. Richmond noted that revenue improvement was strong among professional, scientific, and technical firms. Strength in energy, legal, and audit-related services was noted in the Dallas District. Advertisers in the Philadelphia and San Francisco Districts reported strong revenues, and consulting and advertising contacts in the Boston District noted steady activity. Richmond and San Francisco reported that restaurants were busy, while food service contacts in Atlanta reported that demand had softened a bit.

Transportation contacts reported that activity was generally positive. In the Atlanta and Dallas Districts, rail contacts reported strong shipments of petroleum and motor vehicles and equipment. The Richmond District reported increases in port activity with container volumes and tonnage at or near record levels. Input from logistics and trucking contacts was mixed. The Cleveland and Atlanta Districts noted softening volumes and less-robust forecasts for the remainder of the year. Kansas City’s report cited an uptick in trucking activity, while San Francisco’s report cited moderating growth in trucking.

Banking and Financial Services

Overall loan demand grew modestly in most Districts. New York indicated no change, while Richmond observed flat-to-weakening loan demand. Chicago, Kansas City, Dallas, and San Francisco noted increased commercial and industrial lending, but lending in that sector decreased somewhat in the New York District and was characterized as soft in Cleveland and Atlanta. Most Districts reported an increase in mortgage lending, with Dallas noting especially strong demand and a healthy backlog of loans. Refinancing of mortgage loans was steady or increasing in New York, Cleveland, Richmond, and Chicago, but Philadelphia noted a recent slowdown. Kansas City and Dallas noted some improvement in lending for agriculture and commercial real estate. The Atlanta, Chicago, Dallas, and San Francisco Districts observed steady-to-increasing demand for consumer credit, especially for auto loans, while consumer loan demand was somewhat weaker in Kansas City and little changed in Cleveland.

Contacts in the New York, Richmond and Kansas City Districts reported that credit standards remained largely unchanged. Cleveland reported some loosening of auto lending guidelines, while San Francisco indicated credit standards were somewhat restrictive for businesses and consumer loans. Philadelphia, Kansas City, Dallas, and San Francisco noted
general improvements in credit quality. Delinquency rates held steady or declined in the New York and Cleveland Districts. Banking contacts in the Cleveland, Atlanta, Dallas, and San Francisco Districts noted stiff competition for quality loan customers. The Chicago District noted uncertainty over the effects of U.S. fiscal policy actions was reducing their customers’ demand for credit. Likewise, Dallas reported a slightly more pessimistic outlook than the previous Beige Book due in part to European debt issues and regulatory and political uncertainty.

**Agriculture and Natural Resources**

Agricultural conditions were mixed since the previous report. Several Districts noted areas of increased drought resulting in stress to crops and livestock, while rainfall provided needed moisture to parts of the Atlanta District. With high heat and drought cited as the cause, the Chicago and Kansas City Districts reported concerns for their corn and soybean crops, while the Minneapolis District reported that favorable weather conditions contributed to their corn and soybean crops doing well. The Kansas City and Dallas Districts reported drought-stressed pasture conditions, although the Dallas District noted much better crop conditions than this time last year. The St. Louis and Kansas City Districts reported better-than-expected yields for the winter wheat crop nearing completion. The San Francisco District noted further sales growth for many crop and livestock products, attributed in part to overseas growth, but suggested that this source of growth was decreasing. The Kansas City District cited rising export demand as the reason some hog producers expanded production. Agricultural price reports were mixed. While June corn prices were reported down on a year-over-year basis, reports of corn crop deterioration was noted by the Chicago and Kansas City Districts as having pushed corn prices sharply higher since the end of June.

Several Districts reported that energy exploration activity had increased, with offshore prospects being aided by recent lease sales. Regions where coal production is prevalent noted that extraction had decreased over the last year with electricity generation shifting to natural gas. Contacts in many Districts shared expectations that natural gas prices will remain low in the near future. Corn producing regions reported that ethanol processing had decreased in response to the higher corn prices.
Employment, Wages, and Prices

Employment levels grew at a tepid pace for most Districts since the last report. The Boston, Cleveland, Atlanta, Chicago, and Dallas Districts said employment levels were flat to up slightly, with most contacts citing U.S. fiscal policy uncertainty or weak demand for their conservative approach to hiring. Kansas City said employers were reluctant to increase wages or hire full-time staff until economic uncertainty diminishes. A Richmond District employment agency contact noted an increase in temporary employment turning into permanent positions since the last report. The Atlanta District noted some smaller chain stores with low price points were expanding and hiring at a significant pace. Several Districts noted that employers were having difficulty filling highly skilled positions.

Many Districts noted that wage pressures were minimal since the last report. Wage increases were mostly concentrated in highly skilled workers in information technology, health care, transportation, some professional services, and highly skilled manufacturing workers, according to reports from the Atlanta, Chicago, Minneapolis, Kansas City, and Dallas Districts.

Price inflation was modest across most areas of the country. Lower input prices for various commodities were mentioned across most Districts and resulted in expectations of stable input prices in the coming months. Retailers and manufacturers in the Richmond, Chicago, and Dallas Districts noted a decline in cotton prices. Manufacturers in the Cleveland, Chicago, Kansas City, and Dallas Districts mentioned that steel and scrap metal prices have moderated. The decline in energy prices was mentioned in the Atlanta, Chicago, and Dallas reports as contributing to lower cost expectations. However, contractors and building contacts in the Philadelphia, Richmond, and Kansas City Districts noted increases in the cost of building supply materials. Richmond contractors said they were able to pass these costs through, but homebuilders in Philadelphia mentioned limited ability to do so.
Economic activity in the First District continues to expand at a moderate pace. Residential real estate sales increased relative to last year and commercial construction activity continues to gain momentum. Sales in the retail sector remain about flat, while the manufacturing and business services sectors continue slow growth. Contacts report that their costs and prices are increasing very moderately, if at all. Firms are generally not laying off workers, but most are also not engaged in substantial hiring. Many contacts cite uncertainty regarding future macroeconomic conditions as impinging on their outlook, and some contacts cite this as a reason for postponing investment or other decisions.

Retail

First District retail contacts report that sales range from slightly below to slightly above year-ago levels. Consumer spending continues to be strong for adult clothing and shoes, but spending on furniture and electronics has recently slowed relative to the pace earlier in the year.

All of the contacts report that prices seem to be holding steady, and they do not anticipate much inflation or price volatility in the near future. The contacts continue to expect low positive single digit percentage sales increases for 2012, although the final results will depend on holiday shopping. Many contacts feel that there is a lot of macroeconomic uncertainty and expect aggregate growth to be sluggish through the rest of 2012 and into early 2013.

Manufacturing and Related Services

According to our contacts, the manufacturing sector in the First District continues to grow. However, virtually all of the contacts express some concern about the outlook.

Of the 8 firms contacted in this round, 2 report an actual fall in sales relative to year-ago levels, 2 report an increase in growth and the remaining four report slower growth. The firm that reports the largest increase in growth, a manufacturer of fitness equipment, said that sales grew 20% in the first quarter overall but there was a sharp slowdown in March and April followed by a partial recovery in May and June. A manufacturer of electrical equipment said that one area of notable growth is residential real estate, in which they recorded multiple months of double digit growth. Of course, sales in that business line are 65% off their peak during the housing boom.

None of the contacts report any major revisions to their hiring plans. Five of the contacts said they are either not hiring or not hiring much; one said they are hiring and another said it would all depend on the evolution of sales growth. A producer of semiconductor manufacturing equipment reports that it had limited merit pay increases to very high performing employees.

Six of our contacts report no revisions to their capital plans and two report that they plan to hold off of previously planned increases. A fitness equipment manufacturer reports that their
original plan had been to increase investment by 5%, but now they plan to keep it at last year’s levels. A contact at an electrical equipment manufacturer notes that they plan to hold off on capital expenditures despite their strong balance sheet and considerable liquidity.

The key word for the overall outlook is uncertainty. In general, our contacts use phrases such as “sitting on the sidelines” and “waiting for the uncertainty to play out.” Not everyone is completely downbeat. One contact, from the toy industry, reports a “better feeling” than a year ago. There is uncertainty about domestic policy, including the “fiscal cliff” and health care, as well as uncertainty about macroeconomic performance in Europe and China.

**Commercial Real Estate**

Contacts in the First District report that conditions continue to slowly improve in the commercial property market. All contacts, especially those in Boston, note that financing conditions are very favorable for high quality projects. The office market in New England remains flat. Contacts in Boston report difficulty attracting tenants to lower-quality office space and expect vacancy rates to remain steady in the coming months. Contacts believe that the office market is unlikely to improve until the national economy begins to experience robust growth. Construction activity throughout the First District continues to gather momentum, but is mostly limited to the multifamily housing, medical, and higher education sectors. According to contacts, the retail sector is in a holding pattern throughout the First District. Overall, contacts believe that conditions in the New England commercial real estate market are somewhat improved in the last year and, barring a macroeconomic disruption, expect this tepid improvement to continue for the rest of the year.

**Residential Real Estate**

Home and condo sales in the First District showed significant year-over-year increases in May, continuing the trend of the last several months. Contacts attribute the gains to low interest rates, affordable prices, and pent-up demand. A contact from the Greater Boston area adds that improving economic conditions and raising rents in the area have also contributed to sales activity. The consecutive months of growth have improved confidence in the market, but contacts note a recent decrease in momentum compared to previous months. According to most contacts, the pace of market activity has declined slightly, which may be revealed by sales figures in the coming months. Some contacts note that an unseasonably warm winter and spring provided an early boost to sales in the first half of the year, which may account for some softening in activity during the past month. Meanwhile, price changes are mixed across the region. Maine experienced an increase of approximately 7 percent relative to last year while the median sale price in Rhode Island slipped at least 8 percent. Other states in the region
experienced relatively modest changes in price levels from a year ago. Some contacts express concern over appraisal practices, claiming banks appraisers are underestimating home values. Inventory levels declined throughout much of the region, particularly in the Greater Boston area.

As the number of months of consecutive growth continues, contacts have become more optimistic about the direction of the market. Nonetheless, contacts remain cautious about recovery and believe it could be easily derailed by deterioration in economic conditions. Contacts predict continued year-over-year growth in sales for the next several months, but possibly at a slower rate than in previous months while prices are expected to stabilize.

**Selected Business Services**

Consulting and advertising contacts in the First District report a steady but generally positive second quarter of 2012. No firm had a bad quarter, but few of the contacts are particularly excited about their results. Contacts report that potential clients are unwilling to commit to projects and instead choose to hold their cash and wait for clearer signals regarding the direction of the economy and the resolution of political and policy questions. Some contacts report a strong second quarter, generally due to factors specific to the industries they primarily serve.

Contacts report little to no inflationary pressure and were generally not concerned about their rate of cost growth (primarily salaries). Firms report cost growth ranging from zero to “in line with inflation,” and only a few firms report any change in the prices they charge. Of those that did increase their rates, increases range from 2 to 4 percent relative to last year.

Employment growth is weak as many firms report wanting to wait for more demand before hiring, although no firm reports downsizing. Half of all firms report no change in payrolls, while the other half report increases ranging from 2 to 5 percent year-over-year. Firms that report hiring during the second quarter generally expect to continue hiring at a modest pace, while those that did not hire in the second quarter plan to leave employment levels unchanged for the remainder of 2012.

Most contacts are cautiously optimistic about the rest of 2012, and more bullish about 2013. An overarching theme of the contacts’ comments is uncertainty. Contacts are primarily concerned with uncertainty regarding general macroeconomic conditions, the European debt crisis, and politics and the upcoming election.
SECOND DISTRICT--NEW YORK

Growth in the Second District’s economy has slowed since the last report, though labor market conditions have continued to improve. Price pressures have receded further in both manufacturing and other industry sectors, and retail prices have been stable. Non-manufacturing contacts generally report that conditions have held steady in recent weeks, while manufacturers report flat to weaker activity. Retailers generally report weaker results for May and June, but auto dealers indicate that sales activity was fairly robust; tourism activity has continued to be steady and strong. Home sales markets have shown signs of improvement, while rental markets have remained firm; however, commercial real estate markets have slowed modestly. Finally, bankers report a leveling off in loan demand, no change in credit standards, and further declines in delinquency rates on commercial loans and mortgages.

 Consumer Spending

Retailers report that sales activity has been somewhat softer since the last report. One major retail chain indicates that sales were down noticeably from a year earlier, with home goods sales especially weak. Another major chain reports that sales slowed in June and were running somewhat below plan but still up marginally from a year earlier; however, some improvement was noted during the first few days of July. Retail contacts in upstate New York report that sales were mixed in May but picked up in June, again buoyed by Canadian shoppers. Retail prices continue to be described as steady. Inventories are generally said to be at or slightly above desired levels.

Auto dealers in upstate New York report positive results. Sales of new vehicles were up noticeably from a year ago in May and are projected to be up modestly in June. Leasing activity and business at dealers’ service departments have been robust since the last report. Dealers also report strong sales and elevated prices for used vehicles. Wholesale and retail credit conditions remain favorable, though one contact reports that banks have reined in lending for used vehicles.

Tourism activity has remained robust since the last report. New York City hotels indicate that revenues per room were up 6-7 percent from a year ago in May and that very preliminary figures for
June suggest similar gains. This gain reflects increased occupancy rates, which have been running above 90 percent, as well as 3-4 percent increases in average room rates. Attendance at Broadway theatres was generally steady in May and June and up slightly from a year earlier, while revenue was up more than 10 percent, due to rising ticket prices.

Construction and Real Estate

Housing markets across much of the District have improved somewhat since the last report, while rental markets have continued to strengthen. Both the volume of Manhattan apartment sales and selling prices were steady in the second quarter; sales of smaller apartments have picked up and account for a growing share of the market. Foreign buyers continue to be a fairly big component of demand at the higher end of New York City’s market. Housing markets in Long Island and Westchester County are reported to have improved in the second quarter: sales activity has picked up, prices have stabilized, and the inventory of available homes, though high, has begun to decline. Existing home sales and prices in northern New Jersey have been flat, hampered by a glut of distressed properties on the market; but there has been a modest pickup in new home sales, as well as construction starts. Real estate contacts in Western New York continue to report robust sales activity and rising prices, despite “tough” mortgage conditions. New York City’s apartment rental market continued to strengthen in the second quarter, with inventories tight and rents increasing—most notably on smaller and lower priced apartments.

Commercial real estate markets in and around New York City have shown some signs of softening since the last report. Office vacancy rates in Manhattan, though steady for the second quarter overall, rose in June; new leasing activity slowed, as renewals have accounted for a growing share of leases. A major brokerage firm notes strong demand from tech firms—largely in Manhattan’s Midtown South district—but sluggish demand from the financial sector. Office vacancy rates in the areas around Manhattan—Long Island, Westchester, and northern New Jersey—edged up in the 2nd quarter. Retail vacancy rates in New York City and northern New Jersey rose slightly in the second quarter. Industrial vacancy rates also edged up in most markets.
Other Business Activity

Contacts across the District indicate that business activity has leveled off since the last report. Business contacts in both manufacturing and other sectors indicate little change in general conditions, but manufacturing contacts in New York State report a pullback in both new and unfilled orders. In addition, business contacts in manufacturing and other sectors note a leveling off in input prices and steady to declining selling prices.

Still, labor market conditions across the District have been steady to slightly improved since the last report. Both manufacturers and business contacts in other sectors say that they are adding workers, on net. A major New York City employment agency specializing in office jobs reports that hiring activity remains fairly subdued and is little changed from the spring; however, this contact also notes that the pool of qualified workers is limited and appears to be dwindling gradually. Similarly, a trucking industry contact notes that firms are having a difficult time finding qualified drivers.

Financial Developments

Responses from small- to medium-sized banks in the District suggest no change in loan demand overall. For specific loan categories, bankers report increased demand for home mortgage loans, but decreased demand for commercial & industrial loans. Bankers also indicate steady to increasing demand for refinancing. The vast majority of contacts report no change in credit standards across all loan categories. Respondents indicate continued decreases in spreads of loan rates over costs of funds for all loan categories—particularly commercial & industrial loans and commercial mortgages. Respondents also note increasingly widespread declines in the average deposit rate. Finally, bankers report a decrease in delinquency rates on commercial loans and mortgages but steady rates on loans to the household sector.
Overall, business activity in the Third District has continued to improve since the previous Beige Book, although results were mixed. Manufacturing activity slowed somewhat. Retail sales and auto sales continued to increase, but at paces that varied across sectors and states. Third District banks have reported steady growth in lending and stronger credit quality since the last Beige Book. Demand for new home construction held steady, and brokers report improving sales of existing homes. Commercial real estate contacts report little change in current demand, while on average service-sector firms report modest continued growth. Price pressures have eased further in many sectors since the last Beige Book.

The overall outlook appears somewhat more optimistic relative to the views expressed in the last Beige Book, due in part to the slowdown experienced then and the subsequent positive announcements regarding major new projects. Manufacturers’ expectations for the next six months remain positive, while anticipated hiring and capital spending has increased further since the previous Beige Book. Retailers, auto dealers, and financial firms remain positive, but somewhat more cautious because of ongoing consumer uncertainty. Real estate and service-sector firms are slightly more optimistic but continue to plan for slow growth through the remainder of 2012. In general, business plans reflect caution, and business contacts express perspectives based on a “new normal” of steady growth at a slower pace than previous expansions.

Manufacturing. Since the last Beige Book, Third District manufacturers have reported declines in shipments and new orders. Gains – some seasonal – continued among the makers of industrial machinery. Makers of food products, lumber and wood products, primary metals, fabricated metals, electronic equipment, and instruments reported a falloff in demand. A few contacts mentioned a slowdown of Marcellus shale activity as a factor in weaker demand.

About eight out of 10 Third District manufacturers expect business conditions to improve or stay the same during the next six months – reflecting a similar level of optimism as reported in the last Beige Book. Optimism is represented in the major sectors cited above, except lumber and fabricated metals. Furthermore, makers of lumber products specifically cited seasonal declines for their weaker six-month expectation. Firms expressed greater expectations of future capital spending and future hiring since the last Beige Book. Several contacts mentioned the need for a new transportation authorization bill – subsequently passed by Congress after a three-year delay.
That and recent announcements of deals to maintain and restart District refinery operations will likely add to the general optimism.

**Retail.** Third District retailers at major malls reported stronger year-over-year sales in May than in April, while outlet centers reported lower growth in May and June than in previous months. At malls, high-end goods, including Apple products and jewelry, did especially well. Sales of children’s clothing were down year-over-year at outlet centers for the first time since 2007; typically a negative signal, this time it may reflect a delay in deep discounting of back-to-school items that had already been discounted by this time last year. Retail contacts remain cautiously optimistic.

Auto sales moderated in Pennsylvania in June following strong sales in April and May, which followed an unusually strong first quarter throughout the Third District. New Jersey reported stronger auto sales in June after more modest growth in April and May. Industry contacts report that fluctuating gas prices are delaying some purchases by elevating uncertainty among buyers weighing their options between trucks and SUVs versus high-efficiency automobiles. Very low borrowing costs for inventories continue to support dealers’ profitability, while demand for dealer services and repairs remains low. The outlook for auto sales remains generally positive, although dealers are concerned that increased consumer uncertainty will not support further growth in sales through the third quarter.

**Finance.** Contacts from the Third District’s financial sector report continued slow improvement since the previous Beige Book. The very slow increase in demand is reflected in uneven reports, with some lenders reporting increases primarily as gains in market share, while others are shifting into and out of various lending segments. Bank contacts report frequent requests from business borrowers for loan modifications, while home refinancings have slowed recently. Most contacts report strong, improving credit quality as households and businesses pay down debt early and build cash reserves. Many contacts report that businesses have adjusted to the “new normal” and anticipate little new growth “through the election and after.”

**Real Estate and Construction.** Residential builders report little change in their level of activity since the last Beige Book. Traffic remained relatively strong, but contract signings remained elusive and weaker than in the first quarter. While uncertainty remains and recent sales were disappointing, high levels of interest continue to encourage builders on their prospects over the next few months. Contacts report a few new developments in select markets and limited
hiring to facilitate strategic growth objectives. Residential brokers reported improving year-over-year home sales in May, and inventory has fallen significantly over the past two years in most markets. Bidding wars reported in a few markets for low-end homes signal that prices in those markets have likely found a bottom. The outlook among builders and brokers remains cautiously positive.

Nonresidential real estate activity has changed little since the last Beige Book, with most contacts indicating continued slow growth in demand for lease and new construction. Bidding for the design and construction of new projects remains “cut-throat,” and margins remain tight for most lease negotiations. Three significant groups of announcements – passage of the two-year federal transportation bill, the various District refinery deals, and a new funding agreement for construction of an urban development project in downtown Allentown – have raised expectations for stronger growth of nonresidential construction activity in the near future. The overall outlook for nonresidential real estate has brightened somewhat since the last Beige Book.

Services. Most Third District service-sector firms continue to report little change from the slow but positive growth reported in the last Beige Book. One contact captured the thoughts of many by describing the economy as “orderly, functioning, nothing exciting.” Staffing firms report some seasonal uptick in hiring, but little change in overall demand or expectations. A few firms report opportunistic investments to capture market share, enter new markets, or take advantage of growth in emerging economies, such as Brazil. Election-year advertising has been a boon for some firms. However, election-year uncertainty and the slowdown in Europe and China have sidelined investment plans for many firms for the remainder of the year. Overall, service-sector firms retain a positive, but cautious, outlook for growth.

Prices and Wages. Price levels have eased further since the previous Beige Book and remain generally constrained. Falling gas prices have contributed to the recent broader price easing. Manufacturing firms have reported lower cost factors since the last Beige Book. Home builders continue to report rising cost pressures for materials and limited ability to pass these costs along. Retailers also continue to report tight margins. Nearly all contacts report an ongoing lack of wage pressures, other than for medical benefits. House prices have stabilized in many areas for low-end homes but continue to fall for high-end homes.
**FOURTH DISTRICT – CLEVELAND**

Economic activity in the Fourth District continued to expand since our last report, but at a slower pace. On balance, manufacturers reported a slight rise in production. New-home construction ticked down, while nonresidential builders saw stronger inquiries. Retailers and auto dealers noted little change in sales during May. Wet shale gas drilling and production increased, though the demand for coal has slowed. Freight transport volume moved lower. And there was some easing in the demand for business credit.

Little hiring was reported across industry sectors. Staffing-firm representatives indicated that the largest numbers of job openings were found in healthcare and information technology. Wage pressures are contained. Input prices were stable, apart from the volatility in residential building materials.

**Manufacturing.** On balance, District factories reported a slight increase in new orders and production during the past six weeks, although we continued to hear reports about a weakening in orders from European customers. Almost all of our respondents said that output was above year-ago levels. The outlook by manufacturers was mixed. Respondents who sell products to aerospace, auto, and energy companies expect moderate growth in the near term. Other contacts are less certain about growth prospects than they had been a few months earlier. Shipping volume by steel producers and service centers was flat or down slightly, with demand being driven mainly by the transportation and energy sectors. Because of uncertainty about market conditions in the upcoming months, many steel producers are in the process of lowering their inventories. District auto production showed a moderate pick-up during May on a month-over-month basis, while rising substantially from year-ago levels. Increased production year-over-year was attributed mainly to the abatement of supply chain issues.

Capacity utilization was at normal levels for most producers after adjusting for seasonal factors. Capital budgets remain on track, with several contacts reporting that they intend to ramp up spending during the second half of the year. Three manufacturers said that they are currently planning capacity expansions. Raw material prices were stable or declined slightly. Most steel makers lowered their prices; otherwise, producer prices held steady. Little change in payrolls was noted, although attracting skilled workers remains difficult. Wage pressures are contained.

**Construction.** Single-family home construction slowed a bit across the District relative to the March/April time frame, although sales were higher compared to year-ago levels. The outlook by homebuilders is less favorable than in our last report. They believe that the domestic political climate and a lowering in consumer sentiment may hurt sales. Contracts were in all price-point categories, except for the high-end. Buyers are looking to downsize and are noticeably more cost conscious. A few reports indicated an uptick in new-home prices within the Fourth District, though margins are still tight. Volatility in building material prices, which began late in the first quarter, has persisted.

Nonresidential contractors described current business conditions as good and much better
than a year ago. Inquiries were strong, which should help bolster near-term backlogs. Projects were broad based, driven by education, healthcare, manufacturing, and multi-family housing. Financing has become more readily available, except for speculative projects. The outlook is fairly positive, but builders are concerned about the upcoming elections and events in Europe and the impact they could have going into 2013. We heard reports of a slight rise in building material prices. Even with the pickup in volume, residential and nonresidential builders have been reluctant to hire additional workers. One builder commented that he is hesitant to add workers until he has a backlog of two-to-three years. Residential and commercial subcontractors have kept their billing rates steady.

**Consumer Spending.** Retailers reported little change in sales during May on a month-over-month basis, but sales were higher relative to year-ago levels. Increased revenues were seen across retail categories. Two of our contacts noted that the warm winter weather did not negatively impact consumer spending during the second quarter. Other respondents reported that the rate of growth in purchases of luxury goods has decelerated during the past couple of months. Retailers anticipate that revenues during the third quarter will be above prior-year levels, mainly in the single digits. Vendor prices were fairly stable. Increases were attributed to higher costs for off-shore labor. Little change was noted in store prices. Inventories continued to rise modestly, but they were described as manageable. Capital spending for the year remains on target. No hiring is anticipated, except at new stores, and wage pressures are contained.

Auto dealers described new-vehicle purchases as steady during the past six weeks, when compared to earlier in the second quarter. Any slowdowns were attributed to seasonal factors or a poor inventory mix, although most dealers are satisfied with their inventory positions. Volume was higher on a year-over-year basis. Dealers reported that sales of fuel-efficient vehicles and trucks are doing particularly well. Leasing continued to grow in popularity. The outlook by dealers for the remainder of 2012 is cautiously optimistic, with many expecting that total sales for the year will equal or be slightly above 2011 levels. Purchases of used vehicles were fairly steady on a year-over-year basis, although some dealers were unhappy with the quality of their inventory. Hiring for sales and service positions was at a very slow pace. Difficulty in finding qualified service technicians has resulted in some wage pressure.

**Banking.** Bankers reported some easing in demand for business credit. Interest rates remain competitive, especially for refinancings. Loan requests were broad based, with the primary drivers being healthcare, multifamily construction, and shale-gas-related businesses. Little change in consumer credit was noted. Products in highest demand were auto loans (direct and indirect) and home equity lines of credit. Consumer credit pricing trended down slightly. In the residential mortgage market, demand was described as stable to very strong. A high percentage of applicants were looking to refinance, although a few contacts said that they are beginning to see a shift in applications from refinancing to new purchase. Two bankers reported some moderate loosening of auto lending guidelines, otherwise no changes were made to loan
application standards. Delinquencies were steady or declined and a few of our respondents cited a drop in credit card delinquencies. Core deposits rose; consumers continued to transition from time-deposit accounts to transaction accounts. One banker reported a moderate reduction in the size of his workforce, while another said that his bank is considering a staff reduction due to the low interest rate environment.

**Energy.** Conventional oil and natural gas production was stable, with little change expected in the upcoming weeks. Well-head prices for natural gas remain at very low levels, while crude prices dropped slightly. Permitting in the Utica shale region of Ohio expanded. The number of Utica permits issued by the Ohio Department of Natural Resources during the first half of 2012 equaled the number issued for all of 2011. Drilling in the Utica shale has picked up, mainly by large, out-of-state companies. Coal production this year is expected to fall below 2011 levels due primarily to reduced demand from electric utilities. Spot prices for metallurgical and steam coals declined further. Production equipment and materials prices were flat, and capital outlays were at projected levels. Significant layoffs were announced by one coal producer due to the idling of some of its mining operations. Otherwise, little change was seen in energy payrolls.

**Transportation.** Freight transport volume was flat or moved slightly lower during May on a month-over-month basis. Sectors driving demand included energy and transportation along with seasonal products. The outlook for the remainder of 2012 remains positive, but most respondents do not expect that growth will be as strong as they had predicted earlier in the year. Costs associated with truck maintenance and diesel fuel prices continued to stabilize. Capital spending for 2012 remains on plan. Outlays are allocated for the replacement of aging units and adding capacity. However, some slowing in spending might occur due to concerns about economic growth and industry consolidation. One contact noted that he is finalizing plans for a terminal expansion in the eastern part of the District. Companies are hiring for replacement and capacity expansion. Wage pressure exists due to a tightening of the driver pool.
Overview. Fifth District contacts provided mixed reports on economic activity since our last assessment. Retailers reported strengthening in consumer spending over the last month, and non-retail firms cited increased activity, despite end-of-June power outages caused by severe storms. Bookings remained solid according to tourism contacts, even as vacationers continued to hunt for bargains. Residential real estate was described as slightly improved overall, although many areas continued to experience weakness. Additionally, contacts at District ports noted some improvement in both import and export volumes in recent months. In contrast, manufacturers reported a marked weakening in orders and shipments in June, following strengthening earlier this year. Employment agencies cited a slight slowdown in demand for workers, with the notable exception of high-skill occupations. Some softening also occurred in commercial construction in recent months, mostly concentrated on the government side of the market, with private demand remaining generally unchanged. Most lenders reported flat or weakening demand for loans; however, a few bankers noted a pickup in mortgage and small business lending. Price change was modest, although retail prices increased somewhat more rapidly than earlier.

Manufacturing. District manufacturing weakened in June, following six months of moderate expansion. A manufacturer of industrial machinery reported that business had slowed during the last month and that major customers were withholding payments. A producer of gas turbines said that economic problems in Europe had reduced his company’s exports by fifty percent. A textile producer noted that his company had reduced capacity at a District plant by approximately twenty percent due to decreased demand from domestic customers. Backlogs of orders had gone from four weeks to day-by-day, according to a modular home manufacturer. He added that his company was not in a position to raise prices to keep up with costs. A producer of electrical equipment mentioned that orders had decreased noticeably during the last month, and that several large customers had scaled back their order projections due to recent economic uncertainty. In addition, several aerospace manufacturers said that airlines were making money but were not adding capacity. Our latest manufacturing survey indicated that prices of raw materials and finished goods grew more slowly over the past month.

Port activity in the District has continued to improve. Several contacts reported that both the number of containers and total tonnage were at or near record levels. One official stated that recent import growth, led by autos and paper products, has been closing the gap with the solid pace of export growth at his port. Imports of auto parts and assembled autos were also helping push some ports to record levels. Port officials noted that imports of machinery had increased, and exports of agricultural equipment were showing unusual strength for this time of year. One port official noted a slight softening in May’s trade activity, which was not expected to continue. A contact reported that freight carriers were having limited success sustaining recently announced rate hikes, due to excess shipping capacity in the industry.
Retail. Sales among District retailers strengthened since our last report, buttressed by big-ticket purchases. Spending picked up for construction-related items, computers, and big-ticket items at home and garden stores. Sales of automobiles also rose, according most dealers we contacted. However, shopper traffic generally waned, according to our most recent survey, and inventory accumulation picked up. Distributors of non-durable goods and building materials merchants reported improved revenues since our last report. Grocery wholesalers also saw revenue gains. The store manager of a large sporting goods establishment noted that sales were up, even with less traffic. He commented that cotton prices had declined, although freight shippers continued to apply gas surcharges. Large areas of the mid-Atlantic lost power for up to a week following strong storms at the end of June; a retailer in the Richmond area reported having to place extra orders for generators as his stock depleted. He noted that bottled water sold out quickly, and sales of battery operated lights and flashlights rose sharply. Retail prices increased at a somewhat faster pace since our last report.

Services. Non-retail services providers reported stable to slightly greater revenue gains in recent weeks. In our most recent survey, revenue improvement was strongest among professional, scientific, and technical firms. A financial services broker in central Virginia cited stable demand, but also noted a general nervousness among his clients regarding "the European situation." Healthcare services providers generally reported little change in demand. Following the Supreme Court's healthcare decision, organizations continued to prepare for upcoming changes. A restaurant owner stated that the recent power outage cost him “some product,” and reservations dropped because his phones were down for several days. Price increases at services-providing firms slowed in recent weeks.

Finance. We received varied reports on loan demand since our last assessment. Characteristic of many anecdotes, a Maryland banker described his lending activity as “very slow, very flat,” with most loans going to refinancing. A loan officer in North Carolina indicated that, while his pipeline was slowing, real estate loan applications for construction projects had improved and even mortgage applications were beginning to “show some life.” An official for a large bank noted modest growth in new loans that were mostly from home buyers and small businesses, while consumer installment loans were down. A banker in western Virginia stated that loan demand for capital improvements from local governments was increasing as federal stimulus funds run out. Finally, an official for a midsize commercial bank reported that his market area seemed to be "moving sideways," with borrowers shifting among local banks to get refinancing at lower rates. Most bankers described their lending standards as unchanged, although one lender noted that competitive pressures for commercial loans had caused some easing in standards to capture high-quality loans.

Real Estate. Residential real estate activity improved slightly since our last report. A Realtor in the Charlotte area said that homes in the mid-price range were selling quickly in her area and that prices were rising. An agent in the D.C. area indicated that properties in the $800,000-plus range were selling somewhat more quickly, and added that continuing low inventory and low interest rates should contribute
to strong sales throughout the summer. Moreover, a Maryland contact noted that trends in the housing sector were generally showing some improvement, with sales and prices rising and active inventory declining. However, a South Carolina Realtor reported that housing in coastal areas was not doing well, which he attributed, in part, to an inventory overhang that was placing downward pressure on prices. A North Carolina housing agent mentioned that the state had proposed a cut in unemployment benefits, which threatened to put more stress on the slowing housing market.

Commercial construction and real estate activity softened in recent months. While most construction contacts reported little change in private sector activity, a solid majority noted a decline in government demand. A Virginia developer described the industry as “sliding into a trough” over the last few months and expected demand to remain weak through the summer and fall. Several contacts said that retailers who were new to the area were most often opting to renovate existing sites rather than to build new stores. A contractor in the D.C. area noted that both large and small chains were expanding and, in some cases, building new stores. Several District Realtors noted that medical office buildings were an exception to the overall weakness in their markets. A West Virginia Realtor noted a sharp increase in interest in commercial buildings, but so far has had little success closing any deals. Contractors reported that the cost of materials had increased, but they were able to pass through most of the increases.

Labor Markets. Fifth District labor market activity was slightly weaker since our last report. Several contacts at employment agencies characterized demand as somewhat slower, compared to a year ago, with one agent noting that the “hiring surge” earlier in the year had slowed. Other employment agents cited strong demand for workers with high-end IT and manufacturing skills. For example, a Hagerstown agent said that, while overall demand for entry-level workers had tapered off, clients were still looking for middle-management, supervisors and highly skilled workers. Similarly, a furniture manufacturer reported difficulty finding skilled employees through temp agencies, which he attributed to potential workers dropping out of the work force or signing up for unemployment. However, a contact for an employment agency in North Carolina noted some improvement in hiring activity, with an increase in temp-to-permanent status. According to our latest survey, wage gains in both the manufacturing and service sectors were a bit more widespread than a month ago.

Tourism. Hoteliers reported solid summer bookings since our last report. A contact on the outer banks of North Carolina said tourist activity remained strong following an early "jump-start" to the vacation season. She noted that restaurants in that location were busy, but that tips were a bit lower than usual as families tried to vacation on a smaller budget. Hotel managers said vacationers continued to seek bargains, and corporate and military travel had softened in part because of pending government actions affecting spending decisions. A Virginia hotel contact reported a massive increase in bookings following severe storms at the end of June, which caused local power outages that lasted past the July 4th holiday.
SIXTH DISTRICT – ATLANTA

Summary. Reports from Sixth District business contacts indicated that economic activity expanded at a modest pace in June and early July. The outlook among most firms remained cautiously optimistic, although the majority of contacts acknowledged that risks were weighted to the downside.

Retailers noted that sales improved slightly, but cautioned that consumers appeared to be conservative in their purchases. Auto dealerships reported continued strong sales. The hospitality sector continued to experience steady growth as occupancy and room rates continued to rise. Most brokers and homebuilders reported modest increases in sales and prices from very low levels of activity, while contractors stated that the apartment sector remained strong. Manufacturing firms indicated that production continued to expand, but at a much more moderate pace than earlier in the year. Bank lending activity increased slightly for residential real estate, while auto loan activity remained robust. Employment growth for the District was subdued and employers remained cautious about future hiring. Lower energy prices have eased pricing pressures for many firms and wage pressures remained modest.

Consumer Spending and Tourism. District retail sales activity improved slightly in June and early July, but merchants reported that consumers remained very conservative. Several discount retailers and auto dealers signaled strong sales, while most department stores conveyed more modest activity. Restaurant and food service contacts reported that demand had softened a bit, but sales at higher-end establishments remained strong.

Tourism activity and business travel remained strong and the outlook among contacts was positive for the rest of the year. Occupancy and room rates were up in many parts of the District. Recent reports on convention bookings and theme park attendance were also solid. Concerns shared earlier in the year regarding rising fuel costs and the potential impact on travel and spending had abated. However, concerns were shared about the potential impact of economic and financial stress abroad and the effect that would have on international travel, especially to Florida. There continued to be a drop off in cruise line bookings compared with earlier in the year.

Real Estate and Construction. District residential brokers indicated that home sales were flat to slightly up compared with year-ago levels. Reports indicated strong sales at the middle price points, while several brokers noted that declining inventories of foreclosed homes were limiting investor-driven sales. Brokers also reported that the decline in inventories has helped stabilize home prices in many areas. Most brokers reported that home prices were flat to
slightly up compared with a year earlier. However, contacts continued to note some downward pressure on home prices resulting from low purchase offers and appraisals that were coming in well-below asking and offering prices. The sales outlook among brokers remained positive with most anticipating continued modest year-over-year home sales gains.

District homebuilders reported that new home sales and construction rose modestly compared with year-ago levels. The majority indicated that new home inventories declined further on a monthly and an annual basis. Most builders reported that new home prices were flat to slightly up compared with a year earlier. Price gains were strongest among Florida builders. Contacts noted that multi-family construction remained robust. In the near-term, homebuilders expect sales and construction to post modest gains compared with a year earlier.

Apartment sector gains drove improvements in the District's commercial real estate markets as occupancies rose and rental rates increased. The region's office and industrial sectors saw small improvements as vacancy rates moderated somewhat; however, reports on District retail real estate continued to be more mixed. The majority of commercial contractors said that construction activity was flat on a year-over-year basis. The majority of contacts anticipate a modest increase in private commercial construction activity through the remainder of the year, while public works projects are expected to decelerate.

Manufacturing and Transportation. Manufacturing contacts indicated that the pace of new orders and production growth remained positive, but had moderated. A major European-based aircraft manufacturer announced it will locate its first American manufacturing facility in Alabama. A Florida manufacturer, closely tied to the construction industry, reported improved but volatile business conditions based on increases in construction of multi-family dwellings, healthcare facilities, and construction at ports.

According to railroad contacts, intermodal activity continued to strengthen. Double-digit increases in shipments of petroleum products, motor vehicles, and equipment were reported; however, movement of grain, metallic ores, and nonmetallic minerals declined. A logistics contact indicated slowing activity, particularly in the retail sector, and had lowered projections slightly for the remainder of the year. Trucking contacts reported softening volumes, and forecasts for the upcoming shipping season were slightly less robust than earlier in the year.

Banking and Finance. Banking contacts noted some improvement in residential mortgage lending. Auto loans continued to be a source of strength, while commercial and industrial lending remained soft. Contacts reported significant competition among lenders for
Bankers indicated that low interest rates, coupled with a limited number of qualified borrowers, continued to squeeze bank margins.

**Employment and Prices.** Regional employment growth remained positive, but muted. Employers continued to cite uncertainty regarding future economic conditions as a reason for limiting hiring and recent economic volatility appears to have exacerbated these anxieties. Small stores with very low price points reported doing well and were expanding with significant hiring plans across the District. Contacts continued to note difficulty in finding qualified applicants for many highly-technical positions, and some reported problems finding candidates for some lower-skilled positions. Many manufacturing and trucking contacts continued to note challenges in attracting applicants with necessary skills. The skills mismatch problem has been especially hard on low-wage individuals, according to community and economic development contacts.

Firms responding in June to the Atlanta Fed's Business Inflation Expectations survey reported a decline in unit cost expectations for the second consecutive month. Survey respondents indicated that, on average, they expect labor and material costs to rise 1.7 percent over the next 12 months. That number is down from 1.8 percent in May and 2.1 percent in April. Firms also reported that their unit costs had risen 1.6 percent compared with this time last year, which is unchanged from their assessment in May. Business contacts reported that lower prices for natural gas and refined oil products were reportedly providing some cost relief. Wage pressures remained modest, although some employers noted that they were increasing starting pay for workers with high-demand skill sets.

**Natural Resources and Agriculture.** Contacts continued to report that investment in expanding and maintaining existing transportation infrastructure would be necessary to accommodate increases in domestic oil and natural gas production. Contacts have noted a steady increase in capital expenditures on refineries for upgrades and expansions. Deep-water permits for offshore drilling have increased. Varying levels of drought conditions had expanded through much of the District resulting in stress to some crops. However, the June tropical storm helped some areas. Compared with last year, June’s prices paid to farmers were down for cotton and corn while prices for oranges, beef, and soybeans increased.
Summary. Economic activity in the Seventh District continued to expand at a moderate pace in June and early July, although once again the pace of growth slowed from the previous reporting period. Growth in consumer spending further moderated, while business spending increased at a steady pace. Manufacturing production increased at a slower pace, and construction activity continued to improve. Credit conditions improved slightly on balance. Commodity prices moved lower, and wage increases remained moderate. The prospects for the District’s corn and soybean crops deteriorated, and crop prices moved higher.

Consumer spending. The pace of growth in consumer spending further moderated in June and early July. Retailers cited lower consumer confidence, a weaker customer response to promotions, and extreme summer heat as the main contributors to the lower sales pace. However, some exceptions were noted. Demand for luxury goods remained stronger by comparison, and sales of clothing, furniture, and home furnishings improved. In addition, the hot weather sparked sales of swimming pools, fans, and air conditioning units. Auto sales also improved, driven in large part by fleet sales and an increase in manufacturers’ incentives on new fuel efficient vehicles. Inventory levels were little changed, but some auto dealers indicated that they were adjusting their inventory mix to include more fuel efficient vehicles in order to meet increased demand.

Business spending. Business spending continued to increase at a steady pace in June and early July. Inventories were generally reported to be at comfortable levels, and most contacts indicated that capital expenditures were proceeding as planned. Auto dealers reported facility upgrades and a number of manufacturers indicated they were purchasing new equipment. That said, many contacts had become more cautious about future spending decisions, pointing to the heightened uncertainty surrounding the federal fiscal environment and the upcoming November elections. Labor market conditions were little changed on balance. Part-time hiring increased on par with seasonal norms in retail trade, although permanent workforces decreased slightly. Manufacturers reported only moderate gains in employment, but several did note increasing the hours of their existing workforce. A staffing firm reported weaker demand from the manufacturing, transportation, and business services industries but an increase in the growth rate of billable hours in the construction and financial services industries.

Construction/real estate. Construction continued to increase in June and early July. Multi-family residential construction remained an area of strength, particularly apartments, but
single-family construction also increased. Residential real estate conditions continued to improve, with home prices and rents both edging up. A contact noted a rise in short sales as a side effect of lenders increasingly looking to avoid the still drawn out foreclosure process. Demand for nonresidential construction also rose. Contacts reported several new hotel and office projects as well as a pick-up in warehousing, industrial, and infrastructure building activity. Commercial real estate conditions were little changed overall. Vacancy rates remained elevated for retail and office properties. Contacts expected that it would take a while for the pace of absorption to pick up significantly despite an increase in capital available for the purchase of commercial properties.

**Manufacturing.** Manufacturing production increased at a slower pace in June and early July. The auto sector remained a source of strength. Several auto suppliers noted an increase in research and development activity, as automakers were shifting responsibility for new product design and development away from their in-house operations. Outside of the auto industry, conditions were mixed. Capacity utilization in the steel industry edged lower; and while metals manufacturers indicated that orders continued to increase, they also noted that growth had softened some from the robust pace earlier in the year. Exports to Canada and Mexico continued to increase, but exporters noted a decline in demand from Europe and China. Demand for heavy equipment was steady, but a few contacts noted that it may soon be slowing. While freight traffic continued to be strong, the demand for heavy trucks was expected to be flat into next year in advance of the next round of changes in emissions standards. The lower price of natural gas was noted to have slowed activity in the industry, as natural gas demand lagged available supply. Contacts indicated that orders from the defense industry further weakened in anticipation of additional defense spending cuts in the coming fiscal year.

**Banking/finance.** Credit conditions improved slightly on balance from the previous reporting period. Demand for longer term financing continued to increase. Credit spreads edged up, but market interest rates declined so that net corporate funding costs were essentially flat. There was steady growth in refinancing and lending for capital replacement, but limited loan demand for other purposes. Middle market firms were the primary source of loan growth. Larger firms were said to have been more significantly impacted by the weakening European economy and have scaled back their borrowing accordingly. Banking contacts also noted that uncertainty over the effects of potential fiscal policy actions on both demand and costs was reducing their
customers’ demand for credit. In contrast, consumer loan demand increased moderately, particularly for auto loans and mortgage refinancing.

**Prices/costs.** Cost pressures decreased in June and early July. Energy prices were noticeably lower. Other commodity prices also decreased, with contacts pointing to steel and lumber as examples. Lead times for some specialty metals remained extended, however. Wholesale price pressures eased, particularly for clothing. Wage pressures continued to be moderate. Manufacturing contacts reiterated having difficulty filling open positions for high-skill trades.

**Agriculture.** Extreme heat and drought conditions spread across most of the District, stressing both crops and livestock. Forecasts made in June called for possibly record crops of corn and soybeans; now it appears the District’s harvest will likely be below average, with little prospect for improvement and plenty of downside risk. The corn crop is in the most danger of further damage, as plants entered a critical stage of development with insufficient moisture. Corn and soybean prices moved sharply higher, and wheat prices also rose. Hog prices were higher, cattle prices were little changed, and milk prices moved lower. With higher costs and the outlook for a decline in revenue, insurance coverage may provide an important safeguard for many farmers this year. Insurance coverage is widespread for corn and soybeans, but is less prevalent for some other products. Furthermore, several years of higher-than-usual farm income have left many operations in a better position to absorb losses this year.
Eighth District - St. Louis

Summary

The economy of the Eighth District has continued to expand at a modest pace since the previous survey. Residential real estate market conditions have continued to improve moderately. Similarly, commercial real estate market conditions have also improved. Recent reports of planned activity from manufacturing firms have been positive. However, reports from services contacts have been mixed. Overall lending at a sample of small and mid-sized District banks increased slightly from mid-March to mid-June.

Manufacturing and Other Business Activity

Reports of plans for manufacturing activity have been positive since our previous report. Several manufacturers reported plans to open plants and expand operations in the near future, while a smaller number of contacts reported plans to decrease operations and lay off workers. Firms in auto, appliance, wall coverings, stone wool insulation, food, construction machinery, factory components, and packaging and label manufacturing reported plans to hire new workers, expand operations, and build new plants. In contrast, a window coverings manufacturing firm reported plans to lay off workers.

Reports of planned activity in the District’s service sector have been mixed since our previous report. Firms in medical transportation services, waste management services, and business support services, as well as a nonprofit organization, announced plans to expand operations and hire new workers. In contrast, contacts in newspaper publishing, telecommunications services, educational services, and a firm in merchant transaction services announced plans to lay off workers. General retailers have reported stronger sales recently, while auto dealers have reported year-over-year increases in sales, especially in certain foreign and luxury brands.
**Real Estate and Construction**

Home sales increased throughout most of the Eighth District on a year-over-year basis. Compared with the same period in 2011, May 2012 year-to-date home sales were up 15 percent in Louisville, 7 percent in Little Rock, 21 percent in Memphis, and 19 percent in St. Louis. Residential construction increased in the majority of the District over the same period. May 2012 year-to-date single-family housing permits increased in the majority of the District metro areas compared with the same period in 2011. Permits increased 45 percent in Louisville, 26 percent in Little Rock, 41 percent in Memphis, and 25 percent in St. Louis.

Commercial and industrial real estate conditions continued to improve moderately throughout most of the District. A contact in northwest Arkansas reported strong commercial and industrial real estate activity, while a contact noted weak demand for office space in the Fayetteville area. A contact in Louisville reported strong leasing activity for premium-quality office space in Louisville’s central business district, while office vacancy rates were mixed in other submarkets in Louisville. A contact reported decreases in office and industrial vacancy rates in downtown St. Louis. A contact in northeast Arkansas reported strong office leasing activity in the Jonesboro area. Commercial and industrial construction activity also continued to improve moderately throughout most of the District. Contacts in St. Louis reported some new commercial and large industrial construction projects. Contacts in Memphis reported that a few large commercial and industrial construction projects are under way in Shelby County.

**Banking and Finance**

Total loans outstanding at a sample of small and mid-sized District banks increased 0.7 percent from mid-March to mid-June. Real estate lending, which accounts for 73.3 percent of total loans, increased 0.6 percent. Commercial and industrial loans, accounting for 15.8 percent of total loans, decreased 2.0 percent. Loans to individuals, accounting for 4.7 percent of total
loans, increased 0.3 percent. All other loans, accounting for 6.2 percent of total loans, increased 9.7 percent. During this period, total deposits at these banks decreased 0.6 percent.

**Agriculture and Natural Resources**

As of the end of June, the majority of cotton, corn, soybean, sorghum, and rice crop conditions were rated as fair or better in all District states with the exception of sorghum crop conditions in Illinois. Winter wheat harvests were either complete or close to completion, and more than 88 percent of the crop conditions were rated as fair or better. However, the fraction of pasture and range in good condition or better decreased in all District states since the previous report. The District’s year-to-date coal production for the end of June was 4.8 percent higher compared with the same period last year. However, the District’s coal production for June 2012 was 5 percent lower than in June 2011.
NINTH DISTRICT--MINNEAPOLIS

The Ninth District economy grew moderately since the last report. Increased activity was noted in consumer spending, tourism, professional services, construction, real estate, and agriculture. Growth was also positive, but slightly slower than in the previous reporting period, in the manufacturing, energy, and mining sectors. Some tightening was noted in labor markets, and wage increases were moderate. Price increases were modest, and some decreases were noted.

Consumer Spending and Tourism

Consumer spending grew moderately. Same-store sales at a Minnesota-based retailer increased 2 percent in June compared with a year ago. Sales at a North Dakota mall during June were up over 5 percent compared with a year earlier. A number of new retail store and restaurant openings were reported in North Dakota. Recent new car and truck sales were up at dealerships in Montana, according to a representative of an auto dealers association. However, recent same-store sales at a Minnesota-based women’s apparel retailer were down 15 percent from a year earlier.

Tourism activity increased from a year ago. Tourism officials in the Upper Peninsula of Michigan predicted that summer activity will surpass last year’s levels. In northwestern Wisconsin, resorts were full and sales at other tourism-related businesses posted strong increases. Visits to the Minnesota Zoo for the 12-month period ended in June reached record levels, according to officials. A Minnesota-based travel agency noted that leisure travel was down somewhat, while corporate travel was steady; overall revenue was up. However, restaurant and hotel owners in the Duluth, Minn., area noted a decrease in visits following a major flood in the region.

Construction and Real Estate

Commercial construction activity increased since the last report. The value of new commercial building permits issued in Fargo, N.D., so far in 2012 increased compared with the same period in 2011. Commercial permits in the Sioux Falls, S.D., area were up substantially in value in June from a year earlier. Numerous new commercial building projects were in early stages in the Minneapolis area, including a new headquarters for a large utility and a major expansion at an area hospital. Residential construction increased from a year ago. The value of residential building permits in the Sioux Falls area in June more than doubled from a year earlier. Residential permits increased in value and number in the Minneapolis-St. Paul area in June; the single-family sector saw a surprising rebound. Several large multifamily housing projects were under way in Fargo.
Commercial real estate markets saw continued strength. A Minneapolis property on which a mixed-use development has been stalled since 2003 recently sold to a new investor. Prices for commercial property in the oil boom areas of the District continued to increase. Residential real estate market activity increased as well. Home sales in May were up 27 percent from the same period a year ago in the Minneapolis-St. Paul area; the inventory of homes for sale was down 31 percent, and the median sales price rose by 11 percent. In the Sioux Falls area, May home sales were up 32 percent, inventory was down, and the median sales price rose nearly 3 percent relative to a year earlier.

Services
Activity at professional business services firms grew somewhat since the last report. According to a Minneapolis Fed ad hoc survey, District professional business services firms noted gains in revenue and profits over the past three months, while the amount of space occupied held relatively steady. Respondents were mildly optimistic about the upcoming three months regarding revenue and profits. Some contacts noted that competition in the sector has lowered prices and driven down margins, yet projects were more complex and customer expectations were higher than five to 10 years ago.

Manufacturing
Growth in the District manufacturing sector moderated slightly from the last report. A June survey of purchasing managers by Creighton University (Omaha, Neb.) found that manufacturing activity expanded in Minnesota and the Dakotas, but at a slightly slower pace than in recent months. A medical equipment maker near Minneapolis announced an expansion into a previously idle facility. A pipe producer announced plans to build a new plant in South Dakota. Plans moved ahead for a potential $1 billion fertilizer plant in North Dakota that would make use of natural gas from the state’s oil patch.

Energy and mining
Activity in the energy and mining sectors slowed slightly. Oil and gas exploration activity decreased in North Dakota and Montana since the last report, but oil production was at record levels. Reports surfaced of ethanol producers idling plants in response to sharp increases in corn prices in late June and early July, along with declining gasoline prices. District coal-mining operations also saw reductions in demand as electricity generation shifted toward natural gas. A mining company suspended its involvement in a joint project to develop a copper, zinc, and gold mine in Michigan’s Upper Peninsula. However, hard rock mines in Montana and iron ore producers in northern Minnesota remained busy.
**Agriculture**

District farmers mostly continued to benefit from favorable weather conditions. Drought that was threatening corn and soybean production throughout the Midwest has not had much effect on Minnesota and North Dakota, where most of those crops were rated in good or excellent condition. However, crop quality was somewhat weaker in Wisconsin and in South Dakota, where drought conditions were more prevalent. Prices received by farmers in June—prior to drought damage in other parts of the Midwest—increased from a year earlier for soybeans, hay, dry beans, poultry, and cattle; prices decreased for corn, wheat, hogs, and dairy products.

**Employment, Wages, and Prices**

Some tightening in labor markets was noted since the last report. Across the District, some health care organizations indicated they were planning to hire more workers, a number of retailers noted difficulty finding sales associates to fill open positions, and manufacturers continued to struggle to find skilled welders. According to the aforementioned ad hoc survey of professional business services firms, 28 percent expect to increase hiring over the next three months, while 8 percent expect decreases in staff levels. However, in Minnesota an electronics retailer will lay off an unspecified number of store and technical support workers in the state, a paper company laid off about 260 workers following an explosion at the plant, and a cable company laid off almost 70 salespeople.

Wage increases were moderate. Some contacts noted that compensation increases were now similar to prerecession levels as wages and benefits generally held steady during the past few years. Unionized grocery workers in Montana reached labor agreements that include about a 2.5 percent pay increase and added contributions to health and pension plans. Meanwhile, a nearly year-long lockout continued at a sugar beet processing plant after union workers recently voted to reject the management’s offer for a third time. Wages for truck drivers posted larger increases.

Overall price increases were modest, and some decreases were noted. Early July Minnesota gasoline prices decreased more than 10 cents per gallon since the end of May. Metals prices, as well as several other input costs, remained relatively level. One exception was a substantial increase in the price of tires for mining machinery.
TENTH DISTRICT - KANSAS CITY

The Tenth District economy expanded moderately in June. Consumer spending was stronger than expected due to stronger automobile sales and a solid start to summer tourism. Commercial and residential real estate prices rose with stronger sales, and District contacts were optimistic regarding future sales and construction activity. Led by mortgage loan activity, some District banks reported improvements in loan demand and quality. District manufacturing activity edged up and additional gains in production, orders, and capital spending were expected in the coming months. Expanding drought conditions hindered crop development and drove crop prices higher. District oil and natural gas drilling activity held at peak levels but was expected to ease with lower global demand. The price of raw materials for manufacturing rose at a slower pace compared to previous surveys and finished goods prices generally held steady. Wage pressures were subdued except for positions in transportation, high-tech and energy industries.

Consumer Spending. Consumer spending improved with stronger than expected sales in June and was expected to strengthen further in the coming months. District retailers reported increased sales, particularly for seasonal items, mid-priced appliances, apparel, and fashion accessories. Several high-end retailers, however, commented that economic uncertainty had slowed demand for luxury items. Auto sales climbed sharply and were expected to remain solid for the next few months with more dealers offering sales incentives and discounts. Fuel-efficient cars sold well, while demand for large, expensive cars and trucks remained weak. Restaurant sales increased more than expected as both the number of diners and average check amounts edged up in June. Tourism activity ramped up with the start of the summer vacation season, though wildfires in Colorado hurt traffic in the Rocky Mountain region. District hotel owners reported a sharp rise in occupancy at higher average room rates and expected bookings to remain strong during the next three months.

Manufacturing and Other Business Activity. Manufacturing and transportation activity edged up in June and sales at high-tech service firms rose modestly. Following a moderate rebound in May, District factory activity edged higher in June and remained well above year-ago levels, with stronger production at food processing and aircraft manufacturers. The volume of new orders fell in June but was expected to rebound and provide a moderate boost to production during the next six months. A rise in the volume of shipments reduced order backlogs and trimmed finished goods inventories. Capital spending held steady, but fewer plant managers
were hiring as the average work week declined. Most manufacturers indicated that the economic situation in Europe indirectly affected business activity by increasing the uncertainty surrounding global economic conditions and future demand. After easing in the last survey period, transportation activity picked up, particularly in the trucking industry. A modest rise in sales at high-tech firms fell short of expectations but several companies anticipated stronger sales in the months ahead.

**Real Estate and Construction.** Stronger residential home sales reduced home inventories and commercial construction activity grew in June. A sharp increase in home sales reduced home inventories, particularly for low- and mid-priced houses. Stronger sales supported a moderate increase in home prices and real estate contacts expected additional sales and price gains during the next three months. Residential mortgage lenders saw an upswing in loan applications for home purchases while home loan refinancing activity was stable. Sales at construction supply firms remained solid and some building materials were in short supply. Builders, however, reported a lull in new home starts following the spring construction rush, but building activity was expected to pick up during the next three months. After climbing during the last survey period, new commercial construction edged up and was expected to rise further with more projects in the planning stages. Commercial real estate prices firmed with stronger sales activity, and real estate contacts noted owners were making fewer concessions to facilitate deals. Commercial real estate rents rose as vacancy rates fell further. Developers reported little change in access to credit.

**Banking.** In the recent survey period, some District bankers reported modest improvements in loan demand and loan quality with little change in deposit levels. In general, loan demand rose moderately, led by gains in residential mortgage loans and slight upticks in both commercial real estate and agricultural loan demand. Bankers reported steady commercial and industrial loan activity at slightly lower interest rates and a few bankers reported weaker consumer installment loan demand. Some bankers noted that loan quality improved moderately over the past month with addition quality improvements expected over the next six months. Credit standards remained largely unchanged in all major loan categories and bank deposits held steady.

**Agriculture.** Agricultural growing conditions deteriorated substantially since the last survey period as drought spread across the District. Extremely hot, dry weather hindered crop development and more than half of the District’s corn and soybean crops were rated in fair or
worse condition. Crop prices rose sharply as intensifying drought and few prospects of precipitation cut corn and soybean yield forecasts. The winter wheat harvest was nearly complete with better than expected yields in some regions. To preserve drought-stressed pastures, some cattle ranchers were considering selling feeder calves early, especially with high feeder cattle prices. Losses mounted for feedlot operators as feed costs soared. Rising export demand enticed some hog producers to expand production. Strong farm and nonfarm investor demand drove farmland prices higher.

**Energy.** District energy activity held at historically high levels in June but was expected to ease in the coming months. The number of active oil and natural gas rigs in the District held steady with a rise in active oil rigs offsetting declines in active natural gas rigs. Some business contacts expected drilling activity to slow with current supplies adequate to satisfy summer demand, especially if economic uncertainty in Europe trims global demand and keeps oil prices below spring highs. In contrast, a few District contacts expected a slight uptick in natural gas prices as hot weather boosted demand for electric power generated by natural gas. Wyoming’s coal production fell further as some electricity production shifted from coal to natural gas. District ethanol production slowed as rising corn prices and lower gasoline prices cut profits at ethanol firms.

**Wages and Prices.** Wage pressures remained subdued during the survey period, raw materials prices edged up, and finished goods prices generally held steady. Many firms were reluctant to increase wages or hire new staff until economic uncertainty diminishes. Some businesses, however, were offering higher salaries to recruit workers with specialized skills such as engineers, software developers, mechanics, and commercial truck drivers. Some transportation companies charged less for freight hauling in light of reduced fuel costs. The cost of raw materials for manufacturing rose at a slower pace compared to previous survey periods and most finished goods prices remained stable. Retailers held selling prices steady and did not anticipate raising prices during the next three months. Restaurant owners, however, planned to increase menu prices due to high food costs. High occupancy rates prompted hotel operators to raise average room rates. Builders and construction supply companies noted rising prices for some construction materials, particularly drywall and asphalt shingles.
The Eleventh District economy grew at a moderate pace over the past six weeks. Overall manufacturing activity continued to expand. Demand for business services remained solid, and transportation services activity increased. Respondents said retail sales grew at a somewhat slower pace than the last report, and automobile sales held steady. The housing sector continued to improve, and commercial real estate leasing activity held steady. Financial firms noted mixed loan demand. Overall energy activity remained strong, although gas-directed drilling continued to decline. Agricultural conditions deteriorated slightly. Employment levels were steady to slightly higher, and prices were mostly unchanged. Wage pressures remained minimal. Outlooks across industries were generally positive, but some respondents expressed concern about European debt issues, U.S. political uncertainty, and healthcare costs.

**Prices**  Most responding firms said prices were unchanged from the last reporting period. However, accounting firms noted a modest rise in rates, airlines reported higher fares, and some construction-related manufacturers said they were able to raise selling prices as a result of improved demand. Overall, input costs were flat to down, with reports of lower prices for cotton, scrap metal, and steel. The recent decline in fuel prices lowered costs for airlines and freight transportation firms.

The price of WTI ranged from around $83 per barrel in early June to near $85 in early July. Natural gas prices remained depressed but rose 50 cents to around $2.85 per thousand cubic feet over the same period. The price of gasoline declined about 40 cents over the reporting period. Prices for several petrochemical products fell sharply due in part to softening global demand.

**Labor Market**  Most responding firms said employment levels were flat to up slightly. Staffing firms reported demand remained steady at very high levels and noted rising demand for financial analysts, steel and metal fabricators, and construction workers. Reports of hiring came from some retailers, automobile dealers, and primary metals, lumber, paper, and food manufacturers. Wage pressures remained minimal, although legal contacts said raises and bonuses had improved, and rising wages were noted for manufacturing workers with specialized skills such as machine operators.

**Manufacturing**  Overall demand for construction-related products held steady since the last report, and respondents' outlooks have become slightly more guarded. Producers of stone, clay, and glass reported improved demand and higher capacity utilization rates compared to earlier in the year. Contacts in the lumber industry noted a pickup in demand, while primary metals manufacturers reported slight declines. Producers of fabricated metals reported steady sales activity, but said they were concerned about the continuity of some private projects.
Conditions weakened in the high-tech manufacturing sector since the last report. Most respondents said growth in orders slowed or remained flat largely due to a weakening global economy and more uncertainty in outlooks. Contacts said that inventories were close to desired levels and that employment levels were stable. High-tech manufacturers expect growth to remain flat or weaken slightly—a change from earlier in the year when most contacts expected a pickup in the second half.

Demand for paper products held steady, and contacts said they expect modest sales growth for the year. Food producers said sales activity increased over the past six weeks and orders were up significantly from year-ago levels. One food manufacturer reported adding several new workers in part due to strong demand. Automobile and aviation equipment manufacturers said demand held steady since the last report. Expectations are for seasonal pickup in automobile sales over the summer, but aviation manufacturers expect sales to remain flat.

Petrochemicals producers reported a sharp decline in prices due to softening global demand, lower feedstock prices, and capacity coming back online following unplanned outages earlier in the year. Still, margins have remained relatively healthy for ethylene and polyethylene producers. Domestic demand for PVC, tied to residential construction, strengthened, and exports continued to be a major source of sales. Contacts noted inventories of gasoline and distillates were below normal, and Gulf Coast refineries were operating at rates above 90 percent in order to catch up.

Retail Sales  Retail sales increased but the pace of growth decelerated slightly compared to earlier in the year. Sales of apparel, bedding, household items, and small furniture fared well. Discount retailers said sales of food and sundries continued to perform the strongest. Overall sales growth in the Eleventh District continued to outpace the nation, on average, according to three large retailers. Outlooks are cautiously optimistic and contacts say it appears as if the environment has improved slightly for the consumer.

Automobile sales continued to grow at a steady pace. Inventories were at desired levels and prices remained stable. Auto dealers expect sales growth to continue at the same pace through year end.

Services  Demand for staffing services remained steady at very high levels, and contacts noted an increase in orders for financial analysts, construction workers, and steel and metal fabricators. Outlooks were mostly positive but slightly more cautious than the last report. Accounting firms noted a seasonal slowdown in demand. Demand for energy and audit-related services increased modestly while advisory, transactional, and tax services activity softened slightly. Legal firms reported a pickup in demand, with continued strength in real estate, intellectual property, energy, and tax-related services.

Reports from transportation service firms were positive. Railroads noted a slight increase in shipments, with particularly strong growth in petroleum products, motor vehicles and equipment, crushed stone, and
metals. Air cargo, container, and small parcel shipments increased modestly during the reporting period. Airlines reported stable passenger demand over the past six weeks. Domestic demand remained strong buoyed by both corporate and leisure travel. Demand for international travel was strongest for travel to South America and Mexico. Airlines expect passenger demand to soften in the fall and ramp back up over the holiday season.

**Construction and Real Estate** Contacts in the single-family housing industry said demand picked up over the past six weeks. Respondents noted that demand was outstripping supply in some areas, leading to falling inventories. Construction activity was picking up as result. Realtors and builders remained cautiously optimistic. Apartment market respondents continued to report solid demand. While rental rates continued to rise, the pace slowed slightly. Apartment construction activity is expected to pick up in coming months.

Commercial real estate leasing activity remained steady since the last report. Energy and technology sectors continue to drive demand for space, particularly in Houston. Contacts were optimistic but remained concerned about the pace of U.S. economic activity.

**Financial Services** Overall, financial firms reported mixed loan demand. National banks said middle-market lending declined, while auto and energy lending activity remained positive. Regional and community banks noted improvement in C&I and commercial real estate lending. Consumer lending appeared to be steady, with strong mortgage demand and a healthy backlog of loans in the pipeline. Loan pricing remained competitive at very low rates. The quality of outstanding loans continued to improve slowly and deposit growth was mixed. Outlooks are slightly more pessimistic than the last report in part due to European debt issues and regulatory and political uncertainty.

**Energy** Respondents at energy-related firms said activity remained strong, and the District rig count grew modestly over the past six weeks. The rapid shift from dry-gas drilling to oil-directed drilling has not reduced the overall pace of activity, and business remains strong with long lead times and growing backlogs. Activity in the Gulf of Mexico increased further, and the success of a recent auction of offshore acreage suggests continued interest in the region.

**Agriculture** Agricultural conditions deteriorated slightly due to hot and dry weather. Planting neared completion and crops were mostly in fair to good shape, with conditions much better than a year ago. Since the last report, livestock producers have seen pastures dry out, cattle prices fall, and feed costs increase. Crop prices generally increased over the past six weeks, particularly for corn, although cotton prices fell sharply.
Summary

Twelfth District economic activity expanded at a modest pace during the reporting period of June through the beginning of July. Upward price pressures eased somewhat and remained quite contained overall, and upward wage pressures were limited. Sales of retail items rose a bit, and demand grew for most business and consumer services. District manufacturing activity increased slightly on balance. Demand continued to expand for agricultural producers, while activity was largely unchanged for providers of energy resources. Sales and construction activity edged up in District housing markets, and demand strengthened slightly for commercial real estate. Contacts from financial institutions reported a small increase in overall loan demand and slight improvements in credit quality and availability.

Wages and Prices

Upward price pressures were very modest during the reporting period. Price declines were noted for selected raw materials and energy inputs, especially gasoline. The declines in selected input costs combined with robust competition among firms in most sectors to hold down final prices for a wide range of retail goods and services. Looking ahead, most contacts expect prices for their products to remain largely unchanged through the balance of the year.

Upward wage pressures were limited to a few worker groups, although some contacts pointed to more general increases in the costs of pension plans and other employee benefits. Wage gains continued to be held down by high levels of unemployment and tepid demand for new workers. The most pronounced gains were reported for workers with specialized skills in the application of information technologies, along with selected narrow groups of skilled manufacturing workers.

Retail Trade and Services

Retail sales expanded a bit further overall. Modest sales gains were reported for discount chains as well as traditional department stores, and inventories generally were at or near desired levels given the pace of sales. However, some contacts reported growing concern about a softening of demand in the high-end segment of the market. Demand remained largely flat for retailers of home furnishings and major appliances, as declines in television sales offset increases for flooring and appliances. Similarly,
Demand stayed largely stable for grocers as consumers remained focused on necessities. The sales pace for new automobiles stayed high, bolstered in part by pent-up demand for Japanese brands whose inventories have returned to normal after being constrained by last year’s natural disaster in that country.

Demand for most business and consumer services grew further. Activity continued to expand at a solid pace for transportation services such as trucking, although contacts noted that the pace of growth has slowed somewhat in recent months. Sales grew modestly for providers of technology services, as continued weakness in demand from Europe partly offset growth elsewhere. Advertising revenues rose for radio and television broadcasters, with additional gains expected in the second half of the year. By contrast, providers of professional services such as legal and accounting reported that activity was flat. Demand picked up a bit for restaurants and other food-service providers and continued to trend up in the travel and tourism industry: contacts in Hawaii and Southern California reported further gains in visitor volumes and hotel occupancy rates and decreased reliance on price discounting.

**Manufacturing**

District manufacturing activity rose a bit further on balance during the reporting period of June through the beginning of July. Manufacturers of semiconductors and other technology products noted continued high rates of capacity utilization and sales but also some emerging softness in demand. For makers of commercial aircraft and parts, an extensive order backlog and additional new orders kept production rates near capacity. Demand for steel was mostly stable at somewhat low levels, and activity weakened a bit for processed scrap metal as a result of a decline in overseas demand. Conditions remained robust in the pharmaceutical manufacturing sector. For petroleum refiners, capacity utilization rates were largely stable, as growing export sales offset subdued domestic demand.

**Agriculture and Resource-related Industries**

Demand for agricultural products expanded further, while extraction activity for energy resources was mostly unchanged. Final sales and orders grew for many crop and livestock products. This was stimulated in part by continued growth in overseas exports, although the reports suggested that this source of growth is on the wane. Contacts noted modest declines for input costs, particularly for energy and
other petroleum-based products. For energy resources, contacts reported little change in extraction activity for oil and natural gas.

**Real Estate and Construction**

Home demand in the District improved modestly overall, and demand for commercial real estate ticked up on net. The sales pace for new and existing homes grew a bit further in many areas, although it stayed well below its historical average. Improvements in the pace of sales helped to reduce the inventory of available homes, prompting additional modest expansion of home construction activity. Similarly, strong demand for rental space spurred further increases in construction of multifamily units. Looking ahead, most contacts expect home sales and prices to improve a bit further during the second half of the year. Demand for commercial real estate inched up, as reflected in slight declines in office and industrial vacancy rates in some parts of the District. Growth in the technology sector continued to support improving demand for nonresidential real estate in the San Francisco Bay Area and Seattle markets, although the pace of improvement has slowed of late, with contacts noting a recent decline in rental inquiries for vacant properties.

**Financial Institutions**

District banking contacts reported that loan demand grew a bit during the reporting period. Although most businesses remained highly cautious in their capital spending plans and attitudes toward debt financing, the volume of new commercial and industrial loans expanded further. Demand for consumer credit grew on net, especially for auto loans. Reports continued to indicate stiff competition among lenders to provide credit to well-qualified small and medium-sized businesses, placing downward pressure on rates and fees. Contacts also noted additional improvements in overall credit quality and availability, although lending standards remained somewhat restrictive for most business and consumer loans.